Financial Statements and Supplemental Information For the Year Ended June 30, 2008



Financial Statements and Supplemental Information

For the Year Ended June 30, 2008

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Independent Auditors' Report

Members of the Grand Rapids Downtown Development Authority Grand Rapids, Michigan

We have audited the accompanying financial statements of the Grand Rapids Downtown Development Authority (the Authority), a component unit of the City of Grand Rapids, as of and for the year ended June 30, 2008. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Grand Rapids Downtown Development Authority at June 30, 2008, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The summary of current and ongoing projects and future commitments, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Grand Rapids Downtown Development Authority. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, therefore, we express no opinion on it.

Grand Rapids, Michigan

BDO Serdman, LLP

December 1, 2008

Management's Discussion and Analysis

This section of the Downtown Development Authority's (the Authority) financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2008. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. This discussion and analysis is designed to focus on current activities, resulting changes and currently known facts.

Using the Financial Report

This financial report consists of financial statements that focus on the financial condition of the unit of government and the results of its operations as a whole.

One of the most important questions asked about governmental finances is whether the unit of government as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets and the Statement of Activities that present financial information in a form similar to the private sector.

The Statement of Net Assets includes the Authority's assets, liabilities and net assets. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when levied or the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The Authority's net assets are one indicator of the Authority's financial health. Over time, increases or decreases in net assets indicate the improvement or erosion of the Authority's financial health.

Statement of Net Asse

		Fiscal Year 2008	Fiscal Year 2007	% Change
Assets				
Current assets	\$	17,516,879	\$ 17,870,165	(1.98)
Noncurrent assets	Ψ	1,411,535	552,124	155.66
Capital assets, net of depreciation		59,428,740	60,032,726	(1.01)
Total Assets	\$	78,357,154	\$ 78,455,015	(0.12)
Liabilities				
Current liabilities	\$	6,206,541	\$ 5,535,946	12.11
Noncurrent liabilities	,	49,470,512	51,126,989	(3.24)
Total liabilities		55,677,053	56,662,935	(1.74)
Net Assets				
Invested in capital assets, net of related debt		27,917,148	25,417,599	9.83
Restricted for authorized projects		(5,237,047)	(3,625,519)	(44.45)
Total net assets		22,680,101	21,792,080	4.07
Total Liabilities and Net Assets	\$	78,357,154	\$ 78,455,015	(0.12)

Current Assets

Equity in Pooled Cash and Investments

The City of Grand Rapids maintains an investment pool for most City funds and component units. The Authority's \$11.5 million portion of the investment pool is displayed on the Statement of Net Assets as "equity in pooled cash and investments." Investments are primarily certificates of deposit and money market investments (short-term highly liquid debt instruments that have a remaining maturity at time of purchase of one year or less), and are carried at fair value.

Investments Held by Trustee

The Authority's 1994 debt agreement requires that the Authority deposit in a separate bank account an amount sufficient to pay the highest year's principal and interest requirements on the outstanding debt. The \$5.5 million is displayed as "investments held by trustee" on the Governmental Fund Balance Sheet/Statement of Net Assets. Minor fluctuations in the year-end balances are related to interest earned then transferred.

Receivables

In fiscal year 2007, net receivables consisted of only an interest receivable of \$269,237. The Authority's fiscal year 2008 net receivables of \$424,452 are composed of interest receivable, delinquent property tax receivable, receivable from other governmental units and component units, and other receivables. More detailed information is provided in the footnotes.

Noncurrent Assets

Long-Term Loan Receivable

In May, 2008, the Authority loaned \$898,848 to a local developer which used the funds to purchase vacant City property at the southwest corner of Fulton Street and Division Avenue. The terms of the agreement include simple interest to be charged at 4.5% per year. Repayment of the debt begins with interest-only payments each May until 2015 when principal and interest payments commence. Debt service will be completed in 2024.

Pre-Paid Expenses

In January of 2006, the Authority entered into a 15-year maintenance agreement for repairs and improvements to be made by the current owner of the Plaza Towers property for the Authority's riverwalk and Singer Sculpture between the Plaza Towers property and the Grand River.

Capital Assets, Net of Depreciation

Net capital assets of \$59.4 million includes the historical acquisition costs of land, land improvements, buildings and structures, machinery and equipment, and office equipment and furniture less \$30.3 million for accumulated depreciation. Detailed information regarding capital asset additions and deletions is available in the notes section of this report under Capital Assets.

Current Liabilities

Accounts Payable

The June 30, 2008 accounts payable of \$2.5 million consists of expenses for goods and services received from vendors in the current year but paid in the following year, amounts reserved in anticipation of potentially unfavorable property tax appeal decisions, and amounts due to other governmental units as calculated using the State of Michigan Form 2604. Accounts payable as of June 30, 2008 is 16.86% higher than June 30, 2007 due to a larger estimated amount to be reimbursed to the schools in fiscal year 2008 based on the State of Michigan Form 2604.

Accrued Interest Payable

The very large increase in accrued interest payable is because the first interest payment of over \$2 million on the capital appreciation portion of the Series 1994 bonds is due within 12 months after June 30, 2008.

Noncurrent Liabilities, Due Within One Year

Noncurrent liabilities, due within one year, of \$1.3 million represent the amount of the Authority's debt service principal payments due within 12 months after June 30, 2008. The very large decrease in this account is because the first interest payment of over \$2 million on the capital appreciation bonds portion of the Series 1994 bonds has moved to the accrued interest payable - current line.

Noncurrent Liabilities

Noncurrent liabilities are \$49.4 million and represent principal and interest payments scheduled to be paid after June 30, 2009. The decrease in the amounts outstanding on June 30, 2008 and June 30, 2007 is related to the regularly scheduled payments of principal and interest.

Net Assets

Net assets represent the difference between the Authority's assets and liabilities. Total net assets at June 30, 2008 are \$22.7 million - a 4.07% increase compared to total net assets on June 30, 2007.

Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt, of \$27.9 million includes the historical acquisition costs of land, land improvements, buildings and structures, machinery and equipment, office equipment and furniture net of accumulated depreciation and outstanding related principal. The near \$2.5 million increase between fiscal years 2007 and 2008 is equal to the \$2.5 million subtracted from capital assets for current fiscal year depreciation expense, \$2 million in net capital asset additions, net of asset deletions, and the \$3.1 million net decrease in acquisition related outstanding debt service. Detailed information regarding capital assets and acquisition-related debt obligations is in the notes section of this report under Capital Assets.

Restricted Net Assets for Authorized Projects

The Authority's net assets are restricted by the requirements of Michigan Public Act 197 of 1975, as amended, which limits expenditures to those that further the Authority's development program. The \$1.6 million decrease in restricted net assets in fiscal year 2008 is mainly due to the \$2.5 million increase in invested in capital assets, net of related debt explained above less the \$888,021 excess of fiscal year 2008 revenues over expenses.

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	Fiscal Year 2008		% Change
	2000	2007	change
Revenues			
Property taxes	\$ 8,984,643	\$ 8,926,926	0.65
Investment earnings	1,214,072	1,173,680	3.44
Charges for services	483,780	548,726	(11.84)
Federal grants	5,475	-	100.00
Gain on sale of assets	755,138	129,978	480.97
Total revenues	11,443,108	10,779,310	6.16
Expenses			
Urban development	6,556,234	8,411,325	(22.05)
Interest and paying agent fees	3,998,853	4,058,990	(1.48)
Total expenses	10,555,087	12,470,315	(15.36)
Change in net assets	888,021	(1,691,005)	152.51
Net Assets, beginning of year	21,792,080	23,483,085	(7.20)
Net Assets, end of year	\$ 22,680,101	\$ 21,792,080	4.07

Revenues

Property Taxes

The Authority's revenues are generated primarily through the use of tax increment financing in which the Authority captures ad valorem property tax and industrial facility tax revenues attributable to increases in the value of real and personal property within the district boundaries. Property tax increment revenues related to the State Education Tax, the Kent Intermediate School District and the Grand Rapids Public Schools levies may be retained only in an amount sufficient to support the annual debt service for Authority eligible debt obligations outstanding when Proposal A took effect on January 1, 1995. Property tax increment revenues related to the City of Grand Rapids, County of Kent, Grand Rapids Community College and the Interurban Transit Partnership are used to support the Authority's development projects and also debt

service related to those projects. Property tax increment revenues for the year ended June 30, 2008 include property taxes levied July 1, 2007 and December 1, 2007. The increase in revenues between fiscal years 2007 and 2008 is due to increases in property values within the Authority's boundaries.

Investment Earnings

This is interest revenue earned when Authority funds are invested by the City Treasurer. The increase in investment earnings between fiscal year 2007 and 2008 is due to a larger amount of tax increment revenue received and therefore higher cash balances on which more interest was earned despite lower overall interest rates.

Charges for Services

In fiscal year 2007, charges for services revenues were nearly \$550,000 compared to 2008 revenues which totaled nearly \$500,000, a decrease of 11.84%. In fiscal year 2007, the Authority received several payments from the State of Michigan for street reconstruction projects completed in prior years. This was not the case in fiscal year 2008.

Expenses

Urban Development

In the fiscal year ended June 30, 2008 the Authority expended \$6.5 million for urban development work related to the Authority's Development Plan compared to \$8.4 million the prior year.

Annually, the Authority focuses on four major program areas: parks, open space and cultural projects; streetscape improvements; infrastructure improvements and overall development support. In terms of project expenditures, there were five projects in fiscal year 2008 for which expenditures were much larger than all the other projects. Below are those five projects and the amounts expended for them in fiscal year 2008.

- \$ 2,111,678 Downtown parking
 - 717,283 Grandville Avenue Phase 2 Cherry Street to Bartlett Street Streetscape
 - 454,278 Public Transit Related Improvements
 - 233,546 Louis Campau Promenade Phase 2
 - 171,107 Louis Street Phase 2 Monroe Avenue to Ottawa Avenue Streetscape

The five largest projects in terms of expenditures for fiscal year 2007 are below.

- \$ 1,101,987 Ionia Avenue Phase 6 Lyon Street to Michigan Street Streetscape
 - 717,133 Grandville Avenue Phase 2 Cherry Street to Bartlett Street Streetscape
 - 675,695 DASH Parking Lot # 8 Construction Project Completion
 - 546,255 Campau Avenue/Pearl Street Streetscape Improvements
 - 474,364 Lake Michigan Drive Winter Avenue to Seward Avenue Streetscape

Interest and Paying Agent Fees

At various times, the Authority has issued bonds and other long-term obligations for the purpose of supporting development projects within district boundaries. Current debt service supports the following financed construction projects: a parking ramp, the Van Andel Arena, partial support for the DeVos Place Convention Center, and improvements to floodwalls and embankments along the Grand River. Differences between the current and prior years are related to normal payments of interest and paying agent fees.

Overall Financial Position

Management believes the Authority is in good condition financially. Current tax increment revenues are adequate to cover ongoing debt service requirements and current project commitments.

Financial Statements

Statement of Net Assets and Governmental Fund Balance Sheet

		2008		
June 30,	Governmental Fund	Adjustments (Note 3)	Statement of Net Assets	Statement of Net Assets 2007
Assets				
Equity in pooled cash and investments	\$ 11,531,059	\$ -	\$ 11,531,059	\$ 12,034,644
Investments held by trustee (Note 2)	5,550,965	-	5,550,965	5,566,284
Current receivables (Note 4)	424,452	-	424,452	269,237
Due from primary government	-	10,403	10,403	-
Long-term loan receivable (Note 4)	898,848	-	898,848	-
Pre-paid expenses	-	512,687	512,687	552,124
Capital assets (Note 5):				
Non-depreciable	-	13,975,456	13,975,456	11,951,279
Depreciable	-	75,821,349	75,821,349	75,933,349
Less accumulated depreciation	-	(30,368,065)	(30,368,065)	(27,851,902)
Total Assets	\$ 18,405,324	59,951,830	78,357,154	78,455,015
Liabilities				
Accounts payable (Note 6)	\$ 2,572,038	_	2,572,038	2,200,889
Accrued interest payable - current	-	2,249,557	2,249,557	167,890
Compensated absences	_	41,819	41,819	48,315
Deferred revenue	898,848	· ·	-	´ -
Net OPEB obligations	_	19,151	19,151	_
Noncurrent liabilities (Note 7):		,	•	
Due within one year	-	1,323,976	1,323,976	3,118,852
Due in more than one year	-	49,470,512	49,470,512	51,126,989
Total liabilities	3,470,886	52,206,167	55,677,053	56,662,935
Fund Balance				
Reserved for authorized projects	14,933,042	(14,933,042)		
Reserved for encumbrances	1,396		-	-
Total fund balance	14,934,438	<u> </u>		
Total fully balance	14,934,436	(14,934,436)		
Total Liabilities and Fund Balance	\$ 18,405,324			
Net Assets				
Invested in capital assets, net of related debt		27,917,148	27,917,148	25,417,599
Restricted for authorized projects	_	(5,237,047)	(5,237,047)	(3,625,519)
Total Net Assets	<u>-</u>	\$ 22,680,101	\$ 22,680,101	\$ 21,792,080

Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance

_		2008		
			Statement	Statement of
	Governmental	Adjustments	of	Activities
Year ended June 30,	Fund	(Note 3)	Activities	2007
				_
Revenues				
Property taxes	\$ 8,984,643	\$ -	\$ 8,984,643	\$ 8,926,926
Investment earnings	1,214,072	-	1,214,072	1,173,680
Charges for service	483,780	-	483,780	548,726
Federal grants	5,475	-	5,475	-
Gain on sale of assets	-	755,138	755,138	129,978
Total revenues	10,687,970	755,138	11,443,108	10,779,310
Total Tevendes	10,007,570	733,130	11,113,100	10,777,310
Expenditures/Expenses				
Urban development	6,809,409	(253,175)	6,556,234	8,411,325
Principal payments	3,118,854	(3,118,854)	-	-
Interest and paying agent fees	2,249,683	1,749,170	3,998,853	4,058,990
1 7 6 6				· · ·
Total expenditures/expenses	12,177,946	(1,622,859)	10,555,087	12,470,315
Deficiency of revenues over				
expenditures/expenses	(1,489,976)	1,489,976		
experientures/expenses	(1,409,970)	1,409,970		
Other Financing Source				
Sale of capital assets	755,138	(755,138)	-	
Change in fund balance	(734,838)	734,838	-	-
Change in net assets	_	888,021	888,021	(1,691,005)
				•
Fund Balance/Net Assets,				
beginning of year	15,669,276	_	21,792,080	23,483,085
Fund Balance/Net Assets, end of year	\$ 14,934,438	\$ -	\$ 22,680,101	\$ 21,792,080
,				

See accompanying notes to financial statements.

Notes to Financial Statements

1. Reporting Entity

The Grand Rapids Downtown Development Authority (the Authority), a component unit of the City of Grand Rapids, Michigan (the City), was created in 1979 by the City of Grand Rapids under the provisions of the State of Michigan Public Act 197 of 1975, as amended. The purpose of the Authority is to correct and prevent deterioration in business districts; encourage historic preservation; authorize the acquisition and disposal of interests in real and personal property; authorize the creation and implementation of development plans in the districts; promote the economic growth of the districts; authorize the levy and collection of taxes; authorize the issuance of bonds and other evidences of indebtedness; and authorize the use of tax increment financing.

The district was formerly bounded roughly by Interstate 196 on the north, Division Avenue on the east, Cherry and Wealthy Streets on the south and Seward Street on the west. In November, 2007 the Authority approved a plan amendment that nearly doubled the Authority's development area. The new boundaries are bounded roughly by Newberry Street on the north, west of Lafayette Avenue or Prospect Avenue on the east, north of Logan Street or Wealthy Street on the south, and east of Lexington Avenue or Seward Avenue on the west. The initial property tax increment revenue capture for the expansion section will be in fiscal year 2009.

2. Summary of Significant Accounting Policies

Basis of Presentation

The statement of net assets/balance sheet and the statement of activities/revenues, expenditures and changes in fund balance report information on the activities of the Authority. The adjustments column is used to reflect the conversion from the balance sheet to the statement of net assets and the conversion of revenues, expenditures and changes in fund balance to the statement of activities.

Measurement Focus and Basis of Accounting

The Authority uses the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance expenditures of the current period. The Authority considers revenues available if collected within 60 days after year-end; however, property tax increment revenues are recognized as revenues in the fiscal year for which the property taxes are levied. Expenditures are generally recognized when the related fund liability is incurred.

Notes to Financial Statements

However, the statement of net assets and the statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied.

Prior Year Columns

The columns labeled Statement of Net Assets 2007 and Statement of Activities 2007 are presented for information purposes only. These statements do not include the Governmental Fund Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance for 2007, which are necessary for a complete presentation in accordance with generally accepted accounting principles.

Budget

The Grand Rapids City Commission annually approves the Authority's budget after the Authority Board Members have reviewed and recommended it for adoption. The budget for the Authority is a project budget rather than an annual budget. Therefore, budget to actual information has not been reflected in the financial statements.

Cash and Investments

The City maintains an investment pool for most City funds and component units. The Authority's portion of the investment pool is displayed on the balance sheet as equity in pooled cash and investments. Investments consist of certificates of deposits with original maturities of greater than three months at the date of purchase, mutual funds and commercial paper. Investments are carried at fair value. State statutes require that certificates of deposit be maintained in financial institutions with offices in the State of Michigan. Interest income earned as a result of cash and investment pooling is distributed to the appropriate funds.

Investment policies and categorization of cash and investments are included in the Comprehensive Annual Financial Report of the City of Grand Rapids to give an indication of the level of risk assumed by the City at year-end. It is not feasible to allocate the level of risk to the various component units of the City.

Notes to Financial Statements

Investments Held by Trustee

As of June 30, 2008, the Authority had the following investments held by a trustee:

Investment	Maturity Date	Fair Value
First American Government Obligation Fund CL D First American Government Obligation Fund CL D	-	\$ 5,550,962 3
		\$ 5,550,965

Interest Rate Risk - Interest rate risk is the exposure of investments to change in the market value as interest rates change. The Authority has not adopted a formal investment policy, and therefore funds are invested under the City of Grand Rapids investment policy, which limits maturities of each investment to no longer than three years to minimize interest rate risk. The investments are reviewed periodically throughout the year and reconciled annually in August.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This risk is minimized by the City's investment policy which only allows Money Market Mutual funds which are rated AAA by two or more of the nationally recognized statistical rating organizations. At June 30, 2008, all of the Authority's investments held by a trustee were subject to credit risk.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority may not be able to recover the value of its investments that are in possession of an outside party. At June 30, 2008, all investments were held by the Authority's agents in the Authority's name.

Capital Assets

Tangible assets having a useful life in excess of one year, with cost in excess of \$10,000, are capitalized. Capital assets are stated at acquisition cost or fair value at the date of donation. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Notes to Financial Statements

	Years
Land improvements	20
Buildings, structures and improvements	20-30
Furniture and furnishings	3-30
Machinery and equipment	3-30

Property Taxes

The majority of the Authority's revenues are generated through tax increment financing. Summer taxes are levied by the City on July 1 and attach as an enforceable lien at that time. Summer taxes are due without penalty on or before July 31. Winter taxes are levied on December 1 and attach as an enforceable lien at that time. Winter taxes are due without penalty on or before February 14.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through legislation or other external restrictions.

In its "Comprehensive Implementation Guide, Guides Issued Through June 30, 2008, Questions and Answers," the Governmental Accounting Standards Board (GASB) instructed governmental units to stop including unamortized debt issue costs in the "invested in capital assets, net of debt" calculation because these costs did not help the Authority acquire, construct, or improve capital assets. For the same reason, interest expenses accrued by the Authority for the capital appreciation bonds (CAB) portion of the Authority's Series 1994 bond issue are also no longer included in the "invested in capital assets, net of debt" calculation. Instead, unamortized debt issue costs and accrued CAB interest expenses are included in "restricted for authorized projects." As a result of these directed changes, the Authority's Fiscal Year 2007 Net Assets section has been restated.

Notes to Financial Statements

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. Reconciliation of Government-Wide and Fund Financial Statements

Amounts reported in the Statement of Net Assets and the Statement of Activities are different from amounts reported in the governmental fund because of the following:

Governmental fund total fund balances	\$ 14,934,438
Capital assets are not financial resources and, therefore, are not reported in the	
governmental fund balance sheet. Non-depreciable	13,975,456
Depreciable	75,821,349
Accumulated depreciation	(30,368,065)
recumulated depreciation	(30,300,003)
Other long-term assets that are not available to pay for current period expenditures and are not reported in the governmental funds:	
Pre-paid maintenance agreement	512,687
Deferred revenue	898,848
Due from primary government	10,403
Long-term liabilities, including accrued interest, are not due and payable in the current period and, therefore, are not reported in the governmental fund balance sheet.	
Contracts payable	(756,837)
Bonds payable	(36,305,720)
Accrued interest on bonds and contracts payable	(15,981,488)
Compensated absences	(41,819)
Net OPEB obligations	(19,151)
Government-Wide Net Assets	\$ 22,680,101

Notes to Financial Statements

Net change in fund balances - governmental funds	\$ (734,838)
The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	294,862
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond and contract principal and long-term payables is an expenditure in governmental funds but the repayment reduces long-term liabilities in the statement of net assets. Repayments of principal of contracts	3,118,854
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Accrued interest	(1,749,168)
Compensated absences	6,496
Net OPEB obligations	(8,748)
Amortization of maintenance agreement	 (39,437)
Change in Net Assets of Governmental Activities	\$ 888,021
Receivables	
Long-term loan receivable	\$ 898,848
Interest receivable	305,015
Delinquent property tax receivable	56,595
Receivable from component units	53,821
Due from primary government	10,403
Receivable from other governmental units	5,475
Other receivables	 3,546
	\$ 1,333,703

4.

Notes to Financial Statements

5. Capital Assets

The following table summarizes, by major class of asset, the capital asset activity for the year ended June 30, 2008:

	Balance July 1,			Balance June 30,
	2007	Additions	Disposals	2008
				_
Capital assets not being depreciated	Φ 11 067 606	Φ 2 0 4 0 1 7 1	Φ 07.500	Ф 12 02 6 25 7
Land	\$ 11,865,686	, ,, -	\$ 87,500	\$13,826,357
Construction in progress	85,593	63,506	-	149,099
Total capital assets not being				
depreciated	11,951,279	2,111,677	87,500	13,975,456
depreciated	11,751,277	2,111,077	07,500	13,773,130
Capital assets being depreciated				
Land improvements	7,899,072	-	-	7,899,072
Buildings and structures	58,845,693	-	-	58,845,693
Machinery and equipment	6,361,044	-	112,000	6,249,044
Office equipment and furniture	2,827,540	-	-	2,827,540
Total capital assets being depreciated	75,933,349		112,000	75 921 240
Total capital assets being depreciated	13,933,349		112,000	75,821,349
Less accumulated depreciation for				
Land improvements	3,037,990	335,682	-	3,373,672
Buildings and structures	21,091,998	1,962,226	-	23,054,224
Machinery and equipment	2,708,712	236,004	112,000	2,832,716
Office equipment and furniture	1,013,202	94,251	-	1,107,453
Total accumulated depreciation	27,851,902	2,628,163	112,000	30,368,065
Total capital assats being				
Total capital assets being	40 001 447	(2.629.162)		15 152 201
depreciated, net	48,081,447	(2,628,163)		45,453,284
Capital Assets, net	\$ 60,032,726	\$ (516,486)	\$ 87,500	\$59,428,740

Estimated cost to complete construction in progress is \$2.1 million.

Notes to Financial Statements

6. Accounts Payable

Accounts payable at June 30, 2008 consisted of the following:

Vendors Estimated taxes due to other governments	\$ 335,917 2,127,924
Estimated taxes currently under appeal	\$ 2.572.038

7. Long-Term Liabilities

Changes in long-term liabilities were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable Accrued interest on capital appreciation	\$39,320,720	\$ -	\$3,015,000	\$36,305,720 \$	1,215,300
bonds	14,064,430	1,762,201	-	15,826,631	2,094,700
Contracts payable	860,691	-	103,854	756,837	108,676
Total	\$ 54,245,841	\$1,762,201	\$3,118,854	\$52,889,188\$	3,418,676

Long-term bonds and contracts consist of the following:

1994 Downtown Development Authority Tax Increment Revenue Bonds, interest rates ranging from 6.88% to 7.35% with various amounts	
maturing through 2024.	\$36,305,720
1997 Kent County Drain Commission Contract Payable, interest rates ranging from 4.5% to 5% with various amounts maturing through 2017.	279,000
2000 Kent County Drain Commission Contract Payable, interest rates ranging from 5% to 5.55% with various amounts maturing through 2020.	144,250
2001 State of Michigan Infrastructure Bank Contract Payable, interest rate is 4% with various amounts maturing through 2012.	333,587

\$37,062,557

Notes to Financial Statements

The annual requirements to pay principal and interest on long-term obligations outstanding at June 30, 2008 are as follows:

Bonds payable:

Year ending June 30,	Principal	Interest	
			_
2009	\$ 1,215,300	\$	3,910,388
2010	1,150,875		4,074,813
2011	1,104,281		4,221,406
2012	1,049,788		4,375,900
2013	998,969		4,536,719
2014-2018	4,231,953		24,541,484
2019-2023	21,954,554		7,094,883
2024	4,600,000		316,250
	\$ 36,305,720	\$	53,071,843

Contracts payable:

Year ending June 30,	Principal		Interest
2009	\$ 108,676	\$	33,952
2010	113,374		29,327
2011	118,699		24,470
2012	118,088		19,431
2013	36,250		14,370
2014-2018	218,000		41,085
2019-2021	43,750		3,721
		•	
	\$ 756,837	\$	166,356

8. Lease Commitments

In 1993, the City County Building Authority (CCBA) issued bonds for the purpose of defraying the cost of constructing a new public parking facility near the Van Andel Museum Center. Debt service for these CCBA bonds is supported solely from the

Notes to Financial Statements

Authority's semi-annual rental payments and will be completed in early 2014. The principal amount outstanding as of June 30, 2008 is \$1,400,000.

In 2003, the City County Building Authority concurrently issued \$5,000,000 Series 2003A and \$5,000,000 Series 2003B bonds for the purpose of defraying, in part, the cost of constructing the DeVos Place riverfront convention center facility on Monroe Avenue. Debt service for the Series 2003A bonds is supported by the County of Kent's semi-annual rental payments and will be completed in December 2023. Debt service for the Series 2003B bonds is supported by the Authority's semi-annual rental payments and will also be completed in December 2023. The Authority's debt-financed project contribution on behalf of the DeVos Place project was supplemented by an additional \$5 million cash contribution early in fiscal year 2004. The amount of Series 2003B principal outstanding for which the Authority is responsible, as of June 30, 2008 is \$4,265,000.

	Van Andel Museum	DeVos Place Convention		
Year ending June 30,	Center Ramp	Center		
2000	A. 2 CO OFF	Φ 200.012		
2009	\$ 269,875	\$ 390,012		
2010	269,375	388,937		
2011	268,375	387,188		
2012	271,750	389,387		
2013	269,500	385,763		
2014-2018	271,625	1,927,463		
2019-2023	-	1,876,694		
2024	-	369,450		

9. Subsequent Events

Shortly after fiscal year 2009 began, the County of Kent Drain Commission determined that it would be in the best interests of the County and City to refund the Series 1997 and Series 2000 Grand River Floodwalls and Drainage District Bond issues and replace them with a single bond issue. The two series represented two of the Authority's three long-term contracts payable.

On September 17, 2008 the County of Kent sold refunding bonds in the par amount of \$7,870,000. Final gross savings were \$291,253 and net present value savings were

Notes to Financial Statements

\$247,474 or 3.34%. The Authority's share of these savings is 5% which is equal to the Authority's share of the original debt service for the Series 1997 and Series 2000 bonds.

10. Contingencies

The Michigan Department of Treasury continues to audit tax increment revenues captured and expended by downtown development authorities throughout the state. This includes tax years 1994 through 2005 for the Authority. In December 2001, the Authority submitted responses to the original audit for tax years 1994-1999. Upon review of these initial responses, the State requested additional clarification. With the prior approval of the Department of Treasury, the Authority submitted clarifications for tax years 1994 and 1995 in December 2002. In the summer of 2005 the State finally responded, in part, to the information submitted in 2001 and later; however, no final determination has been made. Management has estimated the anticipated outcome and has provided for such outcomes in the financial statements.

The City is currently involved in various property tax appeals. The outcomes of the individual appeals are not predictable with reasonable assurance, and it is reasonably probable that some of these matters may be decided unfavorably to the City. The Authority may be liable for certain property tax refunds related to these appeals. Based on the opinions of the City Assessor and the City Treasurer, the estimated outcomes have been provided for in the financial statements.

The Authority is exposed to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the financial position of the Authority.

Supplemental Information

Schedule of Current and Ongoing Projects (Unaudited)

Current and Ongoing Projects

The Authority captures tax increment revenues from two sources: local tax increments and school tax increments. Local tax increment (LTI) revenues are related to City of Grand Rapids millages, Kent County millages, the Interurban Transportation Partnership millage and the Grand Rapids Community College millage. School tax increment (STI) revenues are related to the State Education Tax millage, the Grand Rapids Public Schools operating and debt millages, and the Kent Intermediate School District millages. State law restricts the Authority's use of STI revenues for payment of debt service and other eligible obligations in existence prior to January 1, 1995. The Authority's payments for debt service obligations issued after January 1, 1995 and all of the Authority's current and ongoing projects described below are funded with either LTI or non-tax increment revenues.

The Authority also receives certain non-tax increment revenues, primarily interest on investments and parking revenues which are generated by facilities located on property owned by the Authority.

The Authority is currently involved in the following projects:

Arts and Entertainment Study Implementation

In 2004, the State of Michigan provided funding, and the Authority provided matching funds, to develop an Arts and Entertainment Strategy for downtown. A consulting team led by Urban Marketing Collaborative developed consensus for this new strategy and prepared an action plan for adoption. In addition to expenditures in fiscal year 2008, the Authority has budgeted funds in fiscal years 2009, 2010 and 2011 for implementation of the action plan.

Developer Reimbursements

The Authority has agreed to provide partial reimbursement for the cost of constructing public facilities associated with three new developments: the JW Marriott Hotel on the eastern bank of the Grand River and two mixed-use housing projects. The Authority agreed to provide such requested reimbursement contingent upon the satisfactory completion of these development projects. The first reimbursement was made to the developer of the JW Marriott Hotel in fiscal year 2008 for floodwall and Pearl Street utilities work adjacent to the hotel.

Schedule of Current and Ongoing Projects (Unaudited)

Incentive Programs - Building Reuse, Areaway Removal and Streetscape Improvements

These programs were established to provide financial assistance to businesses and other organizations that initiate projects within the Authority boundaries for the purpose of achieving certain "public purpose" objectives, such as providing access for the disabled, meeting certain code requirements, improving public sidewalks, and restoring the facades of historic structures.

Infrastructure Improvements

The continuing development of downtown is dependent upon continuing investment in infrastructure. The Authority has supported, and proposes to continue its support, these improvements by providing financial assistance. In fiscal year 2008, the Authority agreed to partially support the relocation of a trunk sewer line currently beneath the Bridgewater and Riverhouse buildings on Bridge Street.

Louis Campau Promenade Restoration

The initial portion of the Louis Campau Promenade is in need of restoration due to age and heavier than anticipated use. In fiscal year 2008, work began on the project to restore lighting and surfaces in the plaza area on the former Louis Street between Monroe and Campau Avenues.

Parking and Transportation Program

The Authority continues to play a role in the acquisition of land and its development as parking when these projects would likely not occur without Authority funding. In December, 2007 the Authority acquired property south of Wealthy Street, SW to be used for the possible construction of a parking area needed to alleviate parking shortages related to ongoing development south of the Van Andel Arena. Current commitments also include partial funding of replacement Downtown Area Shuttle (DASH) buses to facilitate worker and visitor movement between the district's workspaces, attractions and parking areas. These DASH buses connect the district's peripheral parking lots to the downtown core.

Pedestrian Safety for Ticketed Events

Ticketed events at the Van Andel Arena and the DeVos Place Convention Center bring thousands of event-goers downtown for hockey games, concerts, family shows, dance performances, monster truck events, conventions, trade shows, consumer shows and other significant events. The increased amount of vehicle and pedestrian traffic on downtown streets,

Schedule of Current and Ongoing Projects (Unaudited)

however, has resulted in concerns regarding pedestrian safety prior to and immediately following these ticketed events. To reduce these concerns, the Authority uses non-tax increment funds to partially reimburse the City for the costs of overtime incurred by the Grand Rapids Police Department to provide event-related vehicle and pedestrian direction and enforcement. The remaining portions of the event-related overtime costs are reimbursed by the Grand Rapids - Kent County Convention/Arena Authority and the Grand Rapids Parking Services Department.

Project and Fixed Asset Maintenance

The Authority financed, in large part, the installation of lighting on downtown bridges, the installation of commemorative signage, the riverfront walkways and boardwalks, and the Singer-designed sculpture located along the river edge walkways. Using non-tax increment funds, the Authority supports the annual maintenance costs of these special projects.

Public Museum Capital Repairs

Beginning July 1, 2006 the former Public Museum of Grand Rapids, now the Public Museum of West Michigan, began operating as a 501(c)(3) non-profit organization separate from the City of Grand Rapids. As part of the operating agreement, the City agreed to provide funding for certain capital repairs at the Van Andel Museum Center (VAMC) location on Pearl Street, NW. The Authority, as part of the City, agreed to provide funding for capital repairs to the riverwalk on the east side of the VAMC. The Authority also agreed to fund capital repairs for the VAMC parking ramp since the Authority issued debt for the design and construction of this ramp and is still paying debt service on the bonds outstanding. Very little maintenance work had been performed on the riverwalk and the parking ramp since their completion in 1994 and the repairs were needed to extend their service lives. This work was completed in fiscal year 2008.

Public Transit Millage Projects

The Authority has agreed, on an ongoing basis, to restrict expenditure of tax increment revenues captured as a result of the Interurban Transit Partnership (ITP) millage to transit-related projects within the district. In prior years, the Authority facilitated the construction of the ITP's Surface Transportation Center by transferring Authority-owned land and assisting with development costs. The Authority also provided financial support, beyond the amount of ITP tax increment revenues captured, for the relocation of an underground conduit bank. In fiscal year 2008, ITP related tax increment revenues were used to support ITP's share of work on the Grandville Avenue reconstruction project. The Authority also used the revenue to partially support improvements to the ITP's Surface Transportation Center.

Schedule of Current and Ongoing Projects (Unaudited)

Rosa Parks Circle Ice Skating Operations

Using non-tax increment revenues, in fiscal year 2006 the Authority embarked upon a new type of downtown development support and co-sponsored funding of ice skating operations at the Rosa Parks Circle Park outdoor rink. This popular and affordable program draws a diverse group of participants: families with young children, youth clubs, teenagers and adults. The Authority continued its co-sponsorship in fiscal year 2008 and has included the program in future budgets.

Special Events

During recent fiscal years, the City has been required to eliminate a variety of non-mandatory expenditures from its General Fund budget including funding for downtown special events. Attempts by the City to require reimbursement from the non-profit organizations that use City staff and equipment resulted in the cancellation of long-time favorites like the German Festival. The Authority eventually determined that these types of special events are important to the vitality and economic success of downtown Grand Rapids since, for many area residents, participation in the downtown festivals is often their first exposure to downtown Grand Rapids. Fiscal year 2007 was the first year in which the Authority provided partial support, using non-tax increment revenues, for the newly created and funded "Office of Special Events." The Authority currently expects to continue to provide support in the future.

Street and Streetscape Improvements

The Authority provides substantial financial support to street and streetscape improvements. Many of these projects are financed with a combination of City, State of Michigan and federal funds in addition to Authority funds. Current projects are:

Campau Avenue - Pearl Street to Monroe Avenue Cherry Street Phase 2 - Commerce Avenue to Division Avenue Commerce Avenue - Wealthy Street to Cherry Street

Grandville Avenue Phase 2 - Cherry Street to Bartlett Street

Ionia Avenue Phase 6 - Lyon Street to Michigan Street

Ionia Avenue Phase 7 - Louis Street to Fountain Street

Louis Street Phase 2 - Monroe Avenue to Ottawa Avenue

Lyon Street - Division Avenue to Claremont Avenue

Oakes Street Phase 1 - Grandville Avenue to Ottawa Avenue

Oakes Street Phase 2 - Commerce Avenue to Division Avenue

Schedule of Current and Ongoing Projects (Unaudited)

In all of the above projects, underground utilities are replaced, street surfaces are repaired and associated streetscape improvements are constructed. The Authority anticipates providing future financial assistance for additional street improvements in the downtown district as needed.

The Gallery on 2 West Fulton

In May, 2008 the Authority loaned \$898,848 to a local developer which used the funds to purchase vacant City property at the southwest corner of Fulton Street and Division Avenue. The developer plans to use the property for a mixed-used project to include a museum, residences, retail and commercial spaces and a parking ramp. Construction of the project began in September 2008.

Wayfinding Signage Programs

The Authority contracted for the design, fabrication and installation of a directional roadway signage system to assist motorists and pedestrians in locating significant attractions and public facilities within district boundaries. The fabrication and installation work was completed in fiscal year 2006. Ongoing maintenance of the signs is funded via the Authority's non-tax increment funds.

In fiscal year 2008, the Authority approved the creation of two new wayfinding signage programs. Both programs are in response to concerns expressed by downtown businesses and workers as well as by convention guests. The first is a wayfinding system for the indoor skywalk system through which convention guests and downtown workers may walk from the DeVos Place Convention Center to the Van Andel Arena without going outdoors. The second wayfinding system is proposed to help downtown guests and workers find and use the walkways along the banks of the Grand River.

Miscellaneous Projects

During fiscal year 2008, the Authority participated in a number of smaller projects related to its mission. These included work on the Monroe Center snowmelt system, partial support for a water fluoridation commemorative sculpture, and updating the downtown brochure/map. Non-tax increment funds were used to partially support energy costs related to the operation of the Monroe Center snowmelt system. Most snowmelt operating costs are paid by the Downtown Improvement District (DID). The Authority pays for energy costs only when they exceed the DID's annual budget for those costs.

Future Commitments (Unaudited)

Future Commitments

The Authority captures tax increment revenues from two sources: local tax increments and school tax increments. Local tax increment (LTI) revenues are related to the City of Grand Rapids millages, the Kent County millages, the Interurban Transportation Partnership millage, and the Grand Rapids Community College millage. School tax increment (STI) revenues are related to the State Education Tax millage, the Grand Rapids Public Schools operating and debt millages, and the Kent Intermediate School District millages. State law restricts the Authority's use of STI revenues for payment of debt service and other eligible obligations in existence prior to January 1, 1995. The Authority's payments for debt service obligations issued after January 1, 1995, all of the Authority's current and ongoing projects, as well as the future commitments described below, are funded only with LTI or non-tax increment revenues.

The Authority also receives certain non-tax increment revenues, primarily interest on investments and parking revenues which are generated by facilities located on property owned by the Authority.

The following projects have either been proposed or approved for funding by the Authority within the next five fiscal years.

Accessibility and Mobility Improvements

The Authority is committed to accessibility for all downtown workers and guests and is ready to begin the implementation phase of downtown accessibility improvements recommended by Disability Advocates of Kent County (DAKC) in September 2006. The goal of the Authority-commissioned audit was to identify and address any barriers that would prevent people from accessing streets, sidewalks, open spaces and facilities. Removal of the barriers identified in the DAKC audit will make downtown more accessible for people with disabilities and will also expand opportunities to attract conventions and conferences that focus on disability issues.

Ah-Nab-Awen Riverwalk

The pedestrian walkway in Ah-Nab-Awen Park, along the Grand River, has been deteriorating due to age and damage caused by natural events like winter ice dams and spring floods. The Authority will provide funding for floodwall stabilization and for the replacement of the walkway.

Future Commitments (Unaudited)

Blue Bridge Re-Painting

The former railroad bridge, now a pedestrian walkway, is in need of re-painting. A grant request will be submitted for the work. The Authority has agreed to provide matching funds if the grant is awarded.

Development Support

Funds are allocated annually to enable the Authority to assist with private and public projects that fall within the "public purpose" criteria of State law and would help to accomplish the developmental objectives of the Authority.

Downtown Senior Center Facility Upgrade

Senior Neighbors and Senior Meals on Wheels, Inc. have requested assistance to establish a new senior center in the downtown area. The Authority has agreed to provide capital assistance provided that the new center is located within Authority boundaries.

Green Grand Rapids Project Support

The Grand River is a focal point of downtown and the region. The Authority has budgeted funds to partially support the City-wide Green Grand Rapids Community Input Project. The goal of this input process is to outline potential ways to prepare and to improve the recreational, scenic and natural aspects of the Grand River.

Monroe Center Phase 3

The Authority has committed to improve the easternmost section of Monroe Center which still contains the design aspects and worn out features of the original Monroe Center installed more than 25 years ago.

Downtown Resident Market Analysis

In 2004, the Authority contracted with Zimmerman/Volk Associates to conduct a residential housing development analysis to understand the downtown housing market at that point in time and to analyze and recommend changes needed to improve the downtown housing market. Since the completion of that study, the Authority's development area has experienced significant increases in the amount and variety of available downtown housing. In order to understand the impact of these changes and to determine which steps, if any, will be needed for future development, in fiscal year 2009 the Authority plans to conduct another downtown residential

Future Commitments (Unaudited)

housing market analysis outlining the breadth and depth of future downtown housing development.

River Edges Projects

The Authority has committed to installing river edge walkways along and/or suspended above both banks of the Grand River from Interstate 196 on the north to U.S. 131 on the south end of the district. Funds have been budgeted in fiscal years 2010 and 2011 for the walkway south of Fulton Street.

Rosa Parks Circle Modifications

With the completion of the new Grand Rapids Art Museum facility, modifications to the Maya Lin-designed park, "Ecliptic" in Rosa Parks Circle, which leads to the front entrance of the new museum will need to be made. The Authority has budgeted funds for implementation of any necessary changes.

Streetscape Improvements

The Authority provides substantial financial support to street and streetscape improvements. Many of these projects are financed with a combination of City, State of Michigan and federal funds in addition to Authority funds. Anticipated projects include:

Cherry Street Phase 3 - Division Avenue to Sheldon Boulevard Grandville Avenue Phase 3 - Weston Street to Oakes Street Jefferson Avenue - Wealthy Street to Cherry Street Wealthy Street - Street lighting

In the above projects, underground utilities will be replaced, street surfaces will be repaired and associated streetscape improvements will be installed. The Authority anticipates providing future financial assistance for additional street improvements in the downtown district as needed.

Voices and Visions Program

The Voices and Visions planning process included a variety of recommendations for the downtown district. The Authority has reserved funds for the implementation of these recommendations.